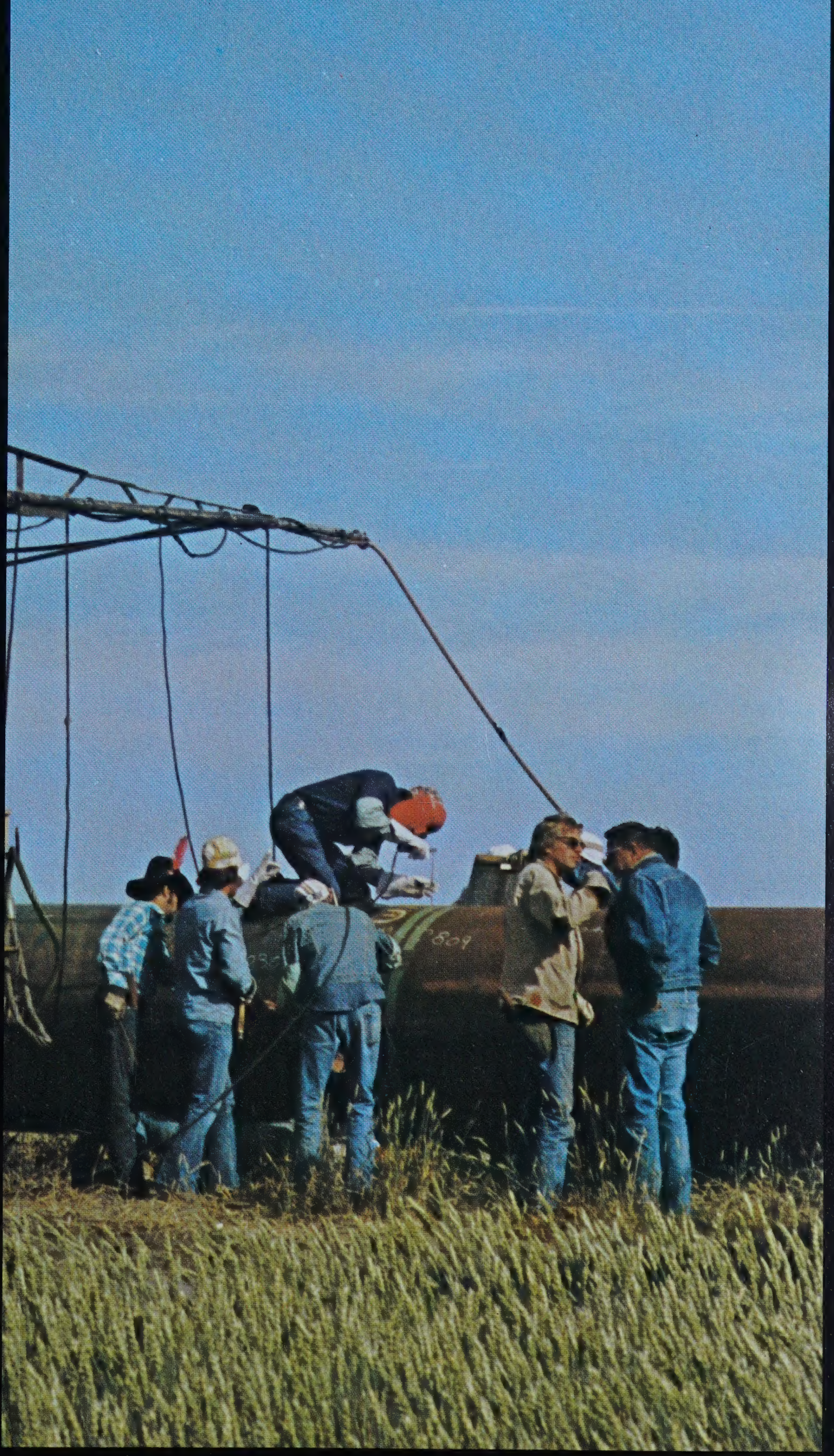
Banister Continental Ltd.

Annual Report 1974



Banister

Foreword

Banister Continental Ltd., at the present time, has basically two main lines of activity, the construction of pipelines and the leasing of IBM System/360 computers and related peripheral equipment.

The computer leasing operation is conducted by Continental Computer Associates (N.Y.), Incorporated out of its headquarters in Wyncote, Pennsylvania. Continental Computer has 72 IBM computer systems, including 69 System/360 computers which are leased to Government and industry in numerous centres throughout the United States.

The pipeline construction operations are headquartered in Edmonton, Alberta with branch office and maintenance facilities in Thunder Bay, Ontario and Anchorage Alaska. Over the years, Banister Pipelines has become a recognized leader in the pipeline construction industry, having pioneered many of the specialized techniques required for successful construction operations under severe Arctic conditions.

With its current fleet of over 1,100 pieces of major construction equipment and its team of experienced, innovative operational experts, Banister Pipelines is in an excellent position to capitalize on the major pipeline construction undertakings that are expected to materialize over the next decade.

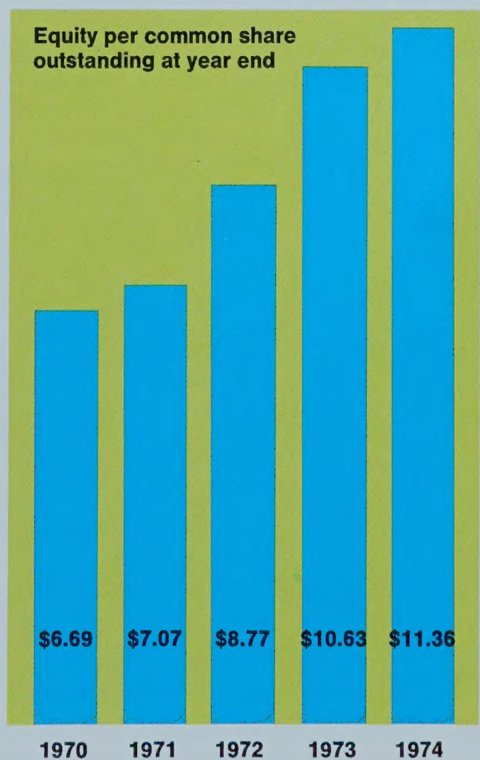
String of sideboom tractors assist in cleaning, coating, wrapping and lowering-in operations

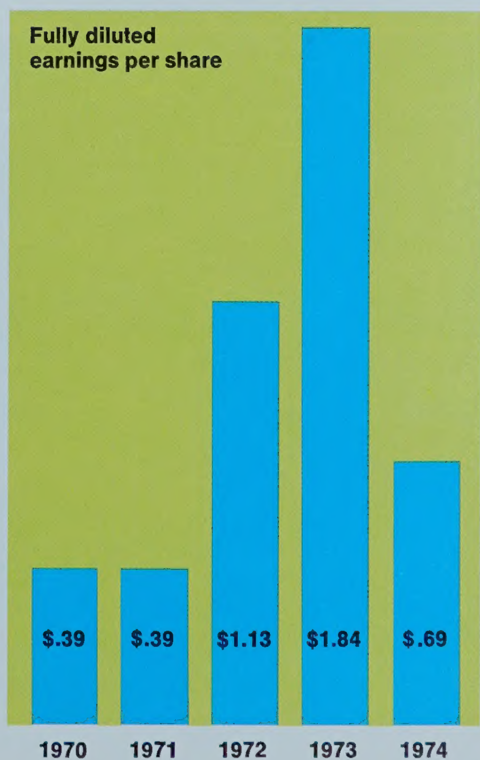
Front cover: Banister Pipelines crew welding 48-inch pipe in wheatfield

Financial Highlights

Year ended March 31, 1974
(Stated in Canadian Dollars)

		1974	1973
		$	$
Gross Revenue		**40,623,000**	66,341,000
Net Income		**2,842,000**	7,679,000
Earnings per Share			
Primary		**.71**	1.91
Fully Diluted		**.69**	1.84
Depreciation		**6,644,000**	5,099,000
Average Common Shares Outstanding	(Shares)	**4,016,000**	3,957,000
Shareholders' Equity		**45,776,000**	43,080,000
Cash and Short-Term Deposits		**18,453,000**	14,641,000
Total Assets		**57,262,000**	63,349,000





To Our Shareholders

The past year has been a very busy one for the management and office staff in all areas of our operations, but one of under-employment for our field forces in the pipeline division, particularly in the last half of the year.

Our revenues were $40,623,000 this year, down from $66,341,000 last year, reflecting a modest increase for our computer leasing subsidiary and a sharp decline for the pipeline division. Net income was $2,842,000 this year, down from $7,679,000 last year.

Primary earnings per share for the year were $0.71 compared with $1.91 a year earlier, based upon average common equivalent shares of 4,016,000 and 3,957,000 respectively.

The Company's strong financial position is highlighted by the fact that shareholders' equity of $45,776,000 at year end constituted approximately 86% of total capital employed. Corporate liquidity has been greatly strengthened in the past year and, at year end, current assets were nearly $23 million as against current liabilities of less than $4 million. During the year, working capital increased more than $4 million.

Computer Leasing

Continental Computer Associates (N.Y.), Incorporated, our computer leasing subsidiary, continues to generate a significant portion of our consolidated cash flow, but rising expenses and generally lower rental rates resulted in a reduced income from its operations this year.

During the year, Continental Computer acquired $2,969,000 worth of additional equipment, primarily used IBM System/360 central processing units in accordance with the subsidiary's revised investment policy established in July, 1972. The majority of this used equipment was leased under full payout contracts at rates that had a favourable impact on the overall financial results of the subsidiary. Depreciation on the computer portfolio amounted to $5,084,000 this year, including $1,403,000 on equipment purchased since July, 1972. All computers in the portfolio, including the new additions, are being depreciated so as to reduce the book value of the portfolio to approximately 5% of original cost by March 31, 1978.

Continental Computer continued to maintain a high percentage of its portfolio on lease and in fiscal 1974 remarketed equipment having an original cost of approximately $14,399,000 and extended leases on equipment having an original cost of approximately $3,464,000. The average monthly rental rate as a percent of acquisition cost continued to decline and was 1.52 percent this year compared with 1.55 percent last year.

In addition to the fine job the Continental Computer team has done in keeping its present portfolio substantially on lease, it has devoted a considerable amount of time investigating opportunities to employ the computer leasing cash flow in full payout situations in similar lines of activity. We believe that our existing portfolio can be profitably supplemented with carefully chosen computer oriented equipment.

Pipeline Construction

By mid-year, pipeline construction revenues were about the same as those received in the corresponding period last year. Revenues for the third and fourth quarters however were substantially lower than those experienced in the previous year.

This significant reduction in revenues during the latter half of the year resulted from generally lower construction activitiy in the industry and from increased competition for the available work. The Company is in a strong financial position and will not assume disproportionate risks when bidding for work under highly competitive conditions.

During fiscal 1974, the Company continued to perform research and development work in the Canadian Eastern Arctic through its joint venture arrangement with Montreal Engineering Company, Limited. The work is being performed for clients who are interested in the feasibility of building a pipeline from the Arctic Islands across ice covered channels to transport gas to the southern Canadian and American markets. The Company believes it is acquiring unique experience in the difficulties which would be involved should the construction of the pipeline ever become a reality.

In mid June of this year, we were informed that our Company was not successful in its attempt to secure a contract for the construction of one or more sections of the trans-Alaska oil pipeline. This was most disappointing for many of our shareholders but also for the many staff members who had worked for so long and so hard in order to obtain this work. We calculated our price for that work on the basis of it occupying our management and staff for up to three years. Obviously the owners were not prepared to pay the price we believed fair and equitable for our knowledge and expertise and chose others.

Since submitting our Alyeska tenders and to the date of writing, the Company has submitted bids on several projects in Canada and Alaska, covering a wide variety of work. We were recently awarded a contract by TransCanada PipeLines Limited for the construction of TransCanada's summer looping program between Toronto and Ottawa.

The necessity to broaden our income generating base in order to offset the fluctuations in revenues derived from our North American pipeline construction activities is very apparent. We have decided to extend our pipeline construction activities into areas other than North America and we are actively seeking opportunities to employ at least one spread of equipment overseas.

The next major pipeline construction project scheduled in Canada is the 500 mile oil pipeline from Sarnia to Montreal. Although permits have not yet been granted for this project, we anticipate that they will be received in time to enable some work to be performed this winter with the balance to be completed in the summer of 1975. In the event permits are granted for this line, it is our intention to bid on a substantial portion of the construction.

Over the next decade, we believe that several billions of dollars worth of pipeline construction work will evolve from the Canadian north. We are positioning ourselves now with these projects in mind and hope to be a significant participant in any project that materializes.

Seismic Division

In order to overcome serious problems relating to the gathering of information for the analysis of bottom profiles and sub-bottom strata for proposed marine pipelines under the Arctic ice, the Company acquired new technology which can be adapted to numerous other applications. A specialized seismic division has been established in Edmonton to provide services to government and industry utilizing the new technology. It is our intention to cultivate a broader market for these services during the forthcoming year.

Mined Storage

The recent energy crisis triggered our desire to become actively involved in the installation of mined cavities for the storage of liquid hydrocarbons. To achieve

this end, the Company has entered into a joint venture with Geostock, a French based corporation with extensive experience in the design, management and installation of these systems in Europe. We anticipate strong market demand for such installations in North America for the strategic storage of crude oil and liquid refinery products and hope to become actively involved in this area.

Algerian Engineering Services

During fiscal 1974, the Company entered into a joint venture with four other Canadian companies for the performance of engineering services required for the construction of hydrocarbon and related facilities in Algeria. The joint venture has obtained a contract for the engineering design of a natural gas recycling plant in Algeria and is looking to obtain other contracts in the future. The Company hopes its participation in the joint venture will enable it to become familiar with the working conditions in Algeria for possible future pipeline construction there.

Board of Directors

On June 7, 1974, Mr. R. K. Banister and Mr. S. S. Beauregard were appointed to the Board of Directors and Mr. R. A. Fisher resigned as Director and Executive Vice President of the Company.

Mr. Banister formed the pipeline construction company 26 years ago and was the man responsible for the Company's growth over the years. Mr. Banister rejoins the Board after a one year absence. Mr. Beauregard was the Financial Vice President of Manufacturers Life Insurance Company until his retirement and is now a part time consultant to the Company. All of the present directors, including these two newly appointed directors, are candidates for re-election by the stockholders at our annual meeting, to be held on August 22, 1974.

Reporting Policy

In keeping with our stated intention of Canadianizing the Company, during the fiscal year we changed from United States to Canadian dollars for financial reporting purposes. Accordingly, all of the above figures and all other dollar amounts in this report are expressed in Canadian dollars unless otherwise noted.

Future

The intrinsic nature of the pipeline construction industry makes it very difficult to predict, with accuracy, revenues and income for future periods. For the first quarter this year, we are anticipating a small loss resulting from an almost total lack of pipeline construction work. However, we have obtained a backlog of work for the second quarter and hope in the near future to obtain additional contracts both to augment these anticipated revenues and to occupy our equipment over a more extended period.

It is our intention to expand our scope of activities. We have the financial resources and our management team is aggressively seeking new opportunities in complementary fields of endeavour. We are optimistic and hope our actions will prove to be rewarding for our many loyal shareholders.

A. J. Cressey

A. J. Cressey
President
July 8, 1974

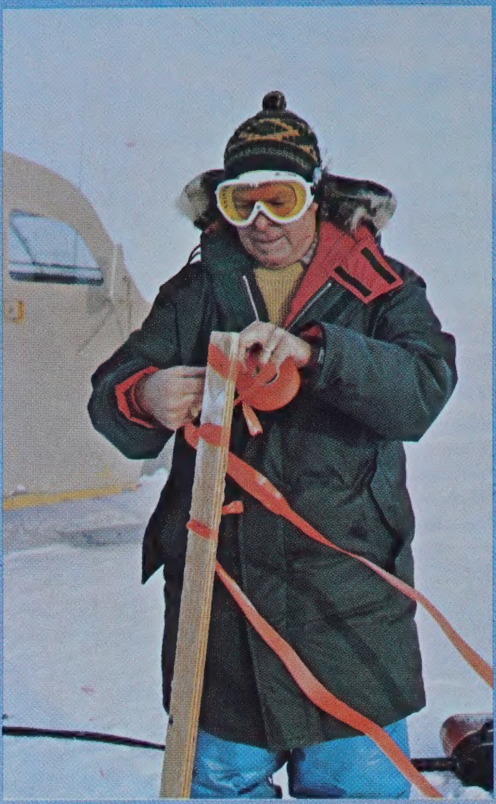
Banister Pipelines crew drilling and mucking in rocky terrain

Continental Computer executive counsels major insurance industry client

Construction Experience

During its 26 year history, Banister Pipelines has performed a very broad range of services for its numerous clients. From its early beginnings in the Alberta oil patch to its present position as one of North America's largest mainline pipeline contractors, the Company has strived for excellence in all areas of its endeavours and, we believe, has obtained a very favourable reputation in the process.

The Company has completed over 11,000 miles of pipeline construction, including nearly 2,000 miles of winter work and more than 2,500 miles of line 34 inches in diameter or larger. The Company has also become exceedingly proficient in major river crossings and now has over 80 to its credit.



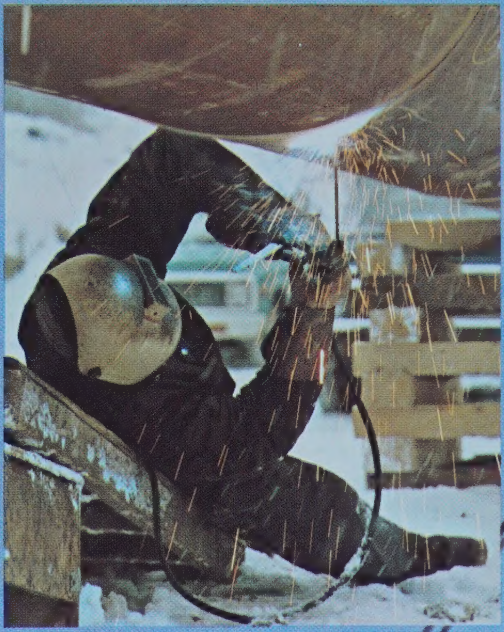
Banister maintains its leadership position in the pipeline industry by subscribing to a corporate policy of innovation and adaptation to change. This combination has also created the flexibility which has enabled the Company not only to survive but to enjoy sustained growth while operating in a cyclical business environment. One of the better known examples of the Company's innovative spirit was its pioneering of winter pipeline construction and the related techniques necessary to successfully traverse muskeg and other high moisture content soils that do not lend themselves to the conventional summer construction methods.

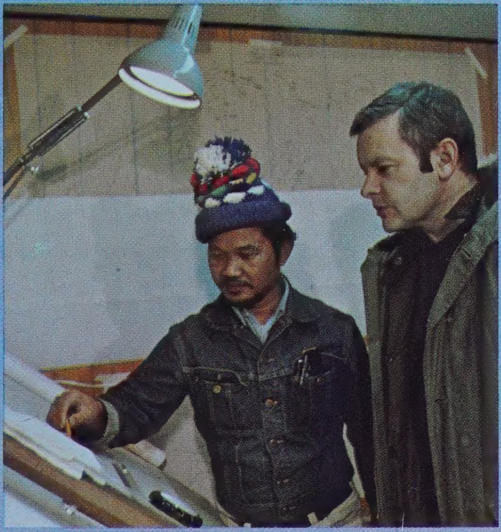
Banister has become involved in numerous special projects ranging from the construction of Arctic pipeline research facilities through design of equipment and evaluation of construction methods. Feasibility studies covering a wide range of oil, natural gas and slurry pipeline transportation systems have been completed for over forty clients.

Many Banister projects are located in remote areas where the need for a coordinated effort in mobilizing men, materials, supplies and equipment becomes acute. The Company has developed a team of highly skilled logistics experts to enhance its construction capabilities and believes this team to be second to none in the industry.

Development of unique construction techniques and specialized equipment to improve performance efficiencies is an ongoing effort. The Company relies heavily on the fundamentals of complete project planning, the development and maintenance of the proper implementing organization and the establishment of effective project control systems to best serve the pipeline owner from project conception to completion.

Banister has a proven track record of outstanding performance on some of the most demanding and complex projects ever undertaken in pipelining history. With its experienced management team and skilled construction specialists, Banister stands ready to play a major role in the development and construction of pipeline facilities in the years ahead.





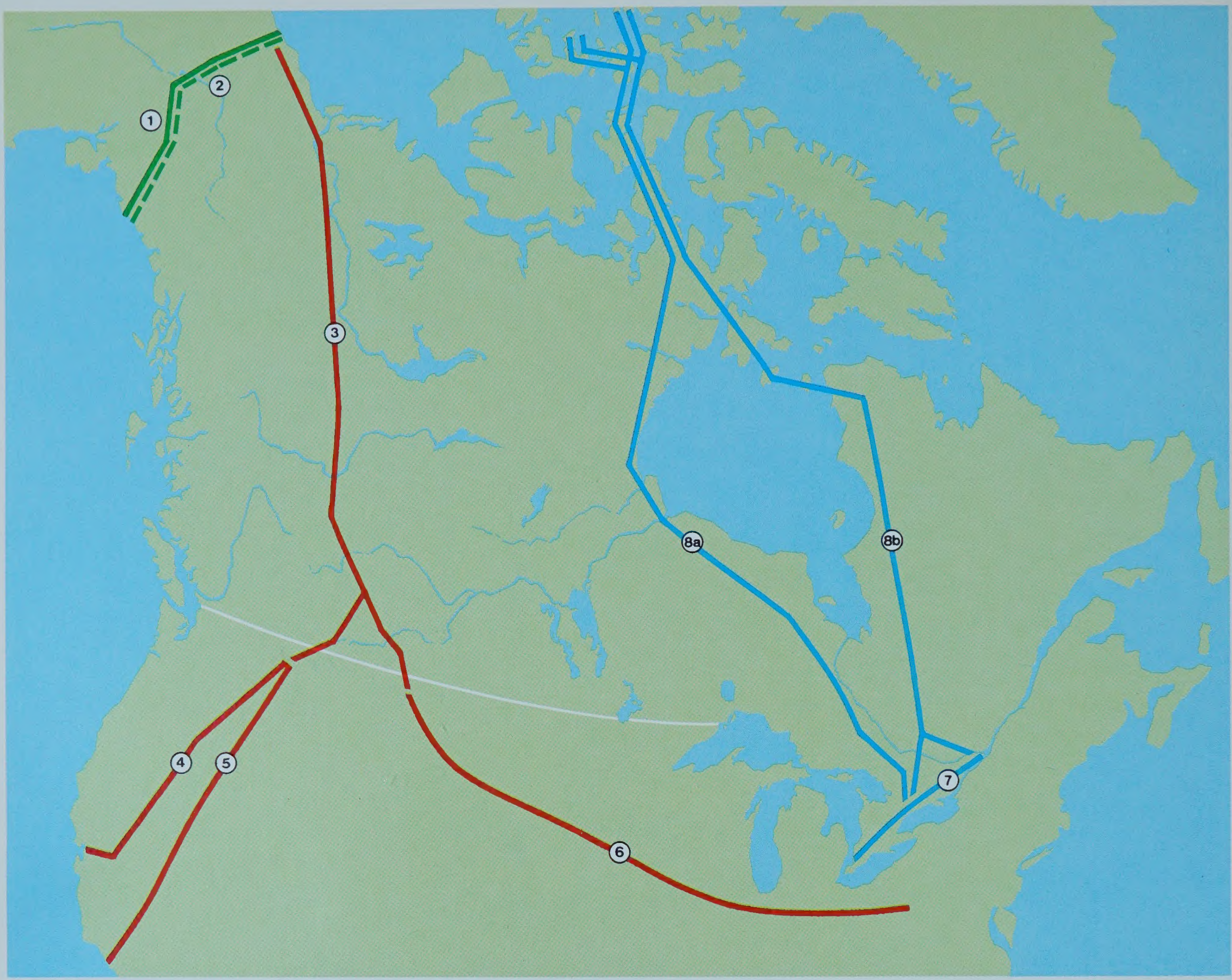
Completed Projects

The adjacent map illustrates the most significant projects completed by Banister to the end of 1973.

Pipelines	
Gathering Systems	
Distribution Systems	
River Crossings	
Testing and Re-rating	
Plant Construction	
Special Engineering Studies	

Re-rating involves cleaning, repairing and pressure testing of existing pipelines.

The special engineering studies were performed for clients contemplating the construction of major transmission lines and included extensive research into construction techniques and the design of specialized equipment to cope with the formidable challenges encountered.



Proposed Pipelines

1 Trans-Alaska oil pipeline
2 Trans-Alaska gas pipeline
3 Mackenzie Valley gas pipeline
4 Arctic gas pipeline to Northern California
5 Arctic gas pipeline to Southern California
6 Arctic gas pipeline to north-eastern States
7 Oil pipeline to eastern Canada
8a Arctic islands gas pipeline–western alternate
8b Arctic islands gas pipeline–eastern alternate

Banister Continental Ltd.

Consolidated Statement of Income

Years ended March 31, 1974 and 1973
(Stated in Canadian Dollars)

	1974	1973 (Note 1)
Revenues:		
Pipeline construction and computer rentals (Note 2)	**$39,404,000**	$65,302,000
Interest and other income	**1,219,000**	1,039,000
	40,623,000	66,341,000
Expenses:		
Operating	**24,606,000**	41,808,000
Depreciation (Note 2)	**6,644,000**	5,099,000
Interest and amortization of deferred charges	**350,000**	517,000
Selling, administrative and general	**3,090,000**	3,546,000
	34,690,000	50,970,000
Income before income taxes	**5,933,000**	15,371,000
Income taxes (Notes 2 and 6):		
Current	**3,232,000**	5,118,000
Deferred	**(141,000)**	2,574,000
	3,091,000	7,692,000
Net income	**$ 2,842,000**	$ 7,679,000
Earnings per share (Note 2):		
Primary	**$ .71**	$ 1.91
Fully diluted	**$ .69**	$ 1.84

See accompanying notes

Banister Continental Ltd.

Consolidated Balance Sheet

March 31, 1974 and 1973
(Stated in Canadian Dollars)

	1974	1973 (Note 1)
Assets		
Current assets:		
Cash and short-term deposits	**$18,453,000**	$14,641,000
Receivables	**3,429,000**	12,141,000
Recoverable income taxes	**495,000**	—
Other current assets	**485,000**	477,000
Total current assets	**22,862,000**	27,259,000
Fixed assets, at cost less accumulated depreciation (Notes 2, 3 and 5)	**26,935,000**	28,687,000
Excess of cost over net assets at acquisition (Note 2)	**6,938,000**	6,938,000
Other assets	**527,000**	465,000
	$57,262,000	$63,349,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Current installments of long-term debt (Note 7)	**$ 512,000**	$ 1,524,000
Accounts payable and accrued liabilities	**2,990,000**	7,917,000
Estimated taxes on income	**22,000**	741,000
Deferred income taxes (Note 2)	**395,000**	777,000
Deferred revenues (Note 2)	—	1,421,000
Total current liabilities	**3,919,000**	12,380,000
Long-term notes payable (Note 7)	**1,510,000**	2,077,000
Subordinated convertible debenture (Note 7)	**2,262,000**	2,325,000
Deferred income taxes (Note 2)	**3,795,000**	3,487,000
Total liabilities	**11,486,000**	20,269,000

Shareholders' equity (Notes 1, 7 and 8): Common shares without nominal or par value:	Shares 1974	Shares 1973	1974	1973
Authorized	**20,000,000**	5,000,000		
Issued	**4,029,582**	4,051,998	**27,059,000**	28,298,000
Contributed surplus			**3,240,000**	—
Retained earnings			**15,477,000**	**14,786,000**
			45,776,000	43,084,000
Less cost of 40,750 shares in treasury			—	4,000
Total shareholders' equity			**45,776,000**	43,080,000
			$57,262,000	$63,349,000

See accompanying notes

On behalf of the Board:

A J Cressey

A. J. Cressey
Director

JHSmith

J. H. Smith
Director

Banister Continental Ltd.

Consolidated Statement of Changes in Financial Position

Years ended March 31, 1974 and 1973
(Stated in Canadian Dollars)

	1974	1973 (Note 1)
Funds provided by:		
Operations:		
Net income	**$ 2,842,000**	$ 7,679,000
Add (deduct) non-working capital items:		
Depreciation and amortization	**6,677,000**	5,152,000
Deferred income taxes	**308,000**	1,565,000
Gain on sales of fixed assets	**(143,000)**	(138,000)
Total provided from operations	**9,684,000**	14,258,000
Proceeds from sale of fixed assets	**912,000**	605,000
Proceeds from exercise of stock options and warrants	**92,000**	875,000
Sale of investment	**—**	1,057,000
Tax benefit of non-qualified stock options exercised	**—**	145,000
	10,688,000	16,940,000
Funds used for:		
Additions to fixed assets	**5,661,000**	8,940,000
Reduction in long-term notes payable and subordinated debenture	**630,000**	4,809,000
Reincorporation costs capitalized	**238,000**	—
Other – net	**95,000**	200,000
	6,624,000	13,949,000
Increase in working capital	**$ 4,064,000**	$ 2,991,000
Increases (decreases) in working capital by component:		
Cash and short-term deposits	**$ 3,812,000**	$ (3,192,000)
Receivables	**(8,712,000)**	8,312,000
Recoverable income taxes	**495,000**	—
Other current assets	**8,000**	34,000
Current instalments of long-term debt	**1,012,000**	(1,262,000)
Accounts payable and accrued liabilities	**4,927,000**	(2,749,000)
Estimated taxes on income	**719,000**	3,837,000
Deferred income taxes	**382,000**	(1,447,000)
Deferred revenues	**1,421,000**	(542,000)
Increase in working capital	**$ 4,064,000**	$ 2,991,000

See accompanying notes

Banister Continental Ltd.

Consolidated Statement of Shareholders' Equity

Years ended March 31, 1974 and 1973
(Stated in Canadian Dollars)

	Common Shares				Treasury Shares		
	Shares	Amount	Contributed Surplus	Retained Earnings	Shares	Cost	Total
Balance, March 31, 1972	3,920,159	$27,278,000	—	$ 7,107,000	(40,750)	$(4,000)	$34,381,000
Net income	—	—	—	7,679,000	—	—	7,679,000
Exercise of warrants	46,923	400,000	—	—	—	—	400,000
Exercise of stock options	84,916	475,000	—	—	—	—	475,000
Reduction in income taxes resulting from exercise of non-qualified stock options	—	145,000	—	—	—	—	145,000
Balance March 31, 1973	4,051,998	28,298,000	—	14,786,000	(40,750)	(4,000)	43,080,000
Net income	—	—	—	2,842,000	—	—	2,842,000
Reincorporation in Canada (Note 1):							
Adjustments to the components of shareholders' equity arising from the reincorporation	(40,750)	(1,331,000)	$3,478,000	(2,151,000)	40,750	4,000	—
Expenses of reincorporation	—	—	(238,000)	—	—	—	(238,000)
Exercise of stock options	18,334	92,000	—	—	—	—	92,000
Balance, March 31, 1974	4,029,582	$27,059,000	$3,240,000	$15,477,000	—	—	$45,776,000

See accompanying notes

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1974 and 1973
(Stated in Canadian Dollars)

1. Reincorporation in Canada and Basis of Presentation

Banister Continental Ltd. is the successor to the business of Banister Continental Corporation which, on April 2, 1973, changed its jurisdiction of incorporation from Pennsylvania to Alberta by transferring all of its assets subject to all of its liabilities to Banister Continental Ltd., its wholly-owned Canadian pipeline contracting subsidiary, in exchange for 4,011,248 shares. Banister Continental Corporation distributed to its shareholders one common share of Banister Continental Ltd. in exchange for each share of Banister Continental Corporation's outstanding common stock. The consolidated financial statements and notes thereto for fiscal 1973 are those of Banister Continental Corporation as it existed prior to the reincorporation.

Subsequent to the reincorporation, the company determined that it was advisable and feasible to report its financial statements in Canadian dollars. Accordingly, all amounts in the financial statements and footnotes thereto for the new entity are in Canadian dollars and amounts for the predecessor Banister Continental Corporation have been restated in Canadian dollars to give effect to the change to Canadian dollar reporting.

Operating results previously reported in United States dollars for fiscal 1973 are summarized as follows:

Revenues	$67,199,000
Income before taxes	15,809,000
Net income	8,041,000
Earnings per share:	
Primary	$2.00
Fully diluted	1.93

2. Accounting Policies

Consolidation policy –
The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned. The accounts of the company's United States subsidiaries have been translated into Canadian dollars based on: (1) the year-end exchange rate for current assets, current liabilities, long-term notes payable and subordinated convertible debenture; (2) exchange rates in effect at the time of the transaction for other non-current assets and liabilities; and (3) exchange rates prevailing during the years for revenues and expenses, except for depreciation and amortization which have been translated at rates pertaining to the related assets. Unrealized exchange gains are deferred and all other exchange adjustments are charged or credited to income. Aggregate exchange losses of $100,000 were charged to income in fiscal 1974 and aggregate exchange gains of $7,000 were credited to income in fiscal 1973.

It is the company's intention to reinvest indefinitely the unremitted earnings of its United States subsidiaries and therefore, income taxes have not been provided on such undistributed earnings. Undistributed earnings of United States subsidiaries amounted to approximately $1,000,000 at March 31, 1974.

Revenues –
Revenues from pipeline construction are reflected in income on the basis of percentage of completion of individual contracts. Deferred revenues represent amounts billed on contracts in progress in excess of revenues recognized. Unbilled costs and revenues on contracts in progress are included in accounts receivable.

Computer leases are accounted for under the operating method, whereby the rental income is recognized ratably over the terms of the leases.

Fixed assets –
Construction equipment is depreciated on the straight-line method at rates from 10% to 50% after recognition of a salvage value, ranging up to 30%. Depreciation of computer equipment is explained in Note 3. Maintenance and repairs are charged to expense.

Excess of cost over net assets at acquisition –
Excess of cost over net assets at acquisition, which resulted from the fiscal 1969 purchase of the Banister pipeline operations, is not being amortized since the company does not believe there is any diminution of value.

Income taxes –
Deferred income taxes result from timing differences between financial and tax reporting principally relating to recognition of construction revenues and accelerated depreciation. That portion of deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

Investment tax credits are applied as a reduction of U.S. Federal income taxes as the qualifying assets are placed into service.

Earnings per share –
Earnings per share have been computed in accordance with generally accepted accounting principles applicable in the United States. Earnings per share computed in this manner for fiscal 1974 and fiscal 1973 are substantially the same as those which would have resulted had the computation been made in accordance with principles applicable in Canada.

Primary earnings per share were computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during each year reduced by the number of common shares assumed to have been purchased with the proceeds from dilutive options and warrants.

Fully diluted earnings per share were determined on the assumption that the convertible debenture was converted at the beginning of each year and the interest (net of tax) added back to net income.

3. Computer Leasing Operations

The computer equipment consists of 72 IBM computer systems, including 69 System/360 computers, and related peripheral equipment acquired for lease to users. At March 31, 1974, the undepreciated balance (net book value) was $15,713,000 which will be depreciated to estimated salvage value of $1,582,000 by March 31, 1978.

The lease portfolio is comprised of leases with terms ranging from 12 to 36 months and leases on month-to-month renewal. At March 31, 1974, the non-cancellable portions of existing leases provide for future rentals aggregating $5,893,000; 66% during fiscal 1975; 23% during fiscal 1976; and 11% in later periods. Since the non-cancellable unexpired portions of the leases are for less than the remaining estimated useful life of the equipment and provide for payment of less than the undepreciated cost, the Company's ability to recover its investment and make a profit thereon will be dependent upon its ability to successfully extend present leases and remarket equipment, at adequate rental rates, or to sell or otherwise utilize the equipment on profitable terms.

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1974 and 1973
(Stated in Canadian Dollars)

To date, the Company has kept substantially all of its computer equipment on lease. Through March 31, 1974, the Company had remarketed equipment having an original cost of approximately $30,860,000 and had extended the leases of equipment having an original cost of approximately $13,642,000. Equipment with a net book value of $811,000, representing 5.2% of the computer equipment owned by the Company, was off-rent and uncommitted at March 31, 1974, compared to $272,000 and 1.5% respectively at March 31, 1973.

Because of technological developments including IBM's introduction of 'virtual memory' for their System/370 series and substantial deliveries of System/370's, the Company has experienced increasing competition from IBM and other computer lessors for re-leasing and remarketing its System 360 computers. While the Company anticipates additional decline in rental rates in the future, it is of the opinion that, based on facts presently known (including its experience to date in leasing IBM System/360 computers, anticipated growth in the use of computers and the price differentials between the 370 and 360 series), it will be able to compete successfully on a price/performance basis.

The Company performs periodic reviews to ascertain the future economic value of its equipment, and has provided depreciation for 1974 and 1973 based on the relationship of current revenues to total estimated revenues through March 31, 1978 (the estimated service life of the portfolio) and after recognition of a salvage value of approximately 5%. Based on the current projections, estimated revenues exceed depreciation and estimated marketing and maintenance expense through March 31, 1978, although no significant profits are projected to be realized during this period.

4. Retirement Plan Costs

The Company and its subsidiaries maintain retirement plans covering all full-time employees. The Company's policy is to fund retirement costs as accrued and nominal amounts of past service costs are being amortized over approximately ten years. The costs of the retirement plans were approximately $67,000 for 1974 and $91,000 for 1973.

5. Fixed Assets

Fixed assets and related accumulated depreciation (in thousands) are as follows:

	Cost 1974	Accumulated Depreciation 1974	Net Book Value 1974	Net Book Value 1973
Construction Equipment	$14,826	$ 4,349	$10,477	$ 9,707
Computer Equipment	35,343	19,630	15,713	18,236
Other	1,149	404	745	744
	$51,318	$24,383	$26,935	$28,687

6. Income Taxes

Components of the provision for income tax are as follows:

	1974	1973
Current:		
Canadian:		
Federal	$2,451,000	$3,305,000
Provincial	694,000	1,173,000
United States (principally Federal)	87,000	640,000
	3,232,000	5,118,000
Deferred:		
Canadian:		
Federal	204,000	1,943,000
Provincial	59,000	631,000
United States – Federal	(404,000)	—
	(141,000)	2,574,000
	$3,091,000	$7,692,000

United States deferred income tax expense has been reduced by investment tax credits of $30,000 in 1974.

The 52.1% effective income tax rate for 1974 differs from the applicable 48.8% statutory Canadian Federal tax rate principally as a result of Provincial taxes in excess of credits allowable against Canadian Federal Tax and certain expenses not deductible for tax purposes.

7. Long-term Notes Payable and Subordinated Convertible Debenture

Long-term notes payable consist of the following:

	1974	1973
7½% U.S. dollar subordinated promissory notes due in equal installments, fiscal years 1974-1978	$1,946,000	$2,500,000
7½% U.S. dollar subordinated note payable maturing in 1981, prepaid in May, 1973	—	1,000,000
7¾% mortgage due 1977	76,000	101,000
	2,022,000	3,601,000
Less current installments	512,000	1,524,000
	$1,510,000	$2,077,000

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1974 and 1973
(Stated in Canadian Dollars)

The 5½% U.S. dollar subordinated convertible debenture, which matures in 1988, is convertible (at U.S. $12.19 per share) into 190,730 shares of common stock and requires annual sinking fund payments of U.S. $233,000 from 1979 through 1987. Such payments may be reduced, at the company's option, by the principal amount of any conversions.

At March 31, 1974 aggregate debt repayment requirements were: 1975 – $512,000; 1976 – $514,000; 1977 – $509,000; 1978 – $487,000; subsequently – $2,262,000.

8. Stock Options

The Company has stock option plans under which options may be granted to officers and other key employees. Options under two of the plans are exercisable as to 50% of the shares one year after the date of grant and as to the remaining 50% two years after the date of grant and expire three years after the date of grant. Under a third plan options become exercisable as prescribed by the stock option committee except that no option shall become exercisable as to any shares until the expiration of at least one year from the date on which it was granted and all options shall terminate no later than five years after the date on which they were granted. Options which were granted during the year under this plan become exercisable in four equal cumulative annual installments beginning one year after the date of grant and expire five years after the date of grant. All options are exercisable at a price not less than the fair market value of the company's common stock on the date of grant of such options.

Options as to 21,084 shares at prices ranging from $5.00 to $20.50 per share were outstanding at March 31, 1973. Additional options for 8,250 shares were granted during fiscal 1974 at $27.50 per share and $27.69 per share and options as to 1,250 shares at $20.50 per share were cancelled. Options as to 18,334 shares at $5.00 per share were exercised during fiscal 1974. Of the options for 9,750 shares outstanding at March 31, 1974, at prices ranging from $13.38 to $27.69, options for 1,500 shares were exercisable at $13.38 per share. At March 31, 1974, 93,435 shares were available for future option grants and 103,185 shares were reserved for issuance upon exercise of stock options.

9. Long-term Leases

The Company leases certain administrative facilities and equipment and construction equipment. Total rental expense amounted to $1,860,000 and $2,908,000 for fiscal 1974 and 1973, respectively, of which $359,000 and $358,000, respectively, was incurred under various leasing arrangements based on usage of construction equipment.

Construction equipment is generally leased for periods of less than one year. Minimum rental commitments under non-cancellable leases in effect at March 31, 1974 for administrative facilities and equipment aggregated approximately $100,000 annually through fiscal 1979.

The Company had no noncapitalized financing leases.

10. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of directors and senior officers including the five highest paid employees (a total of 13 persons) was $499,000 for fiscal 1974.

To the Shareholders of Banister Continental Ltd.

We have examined the accompanying consolidated balance sheet of Banister Continental Ltd. at March 31, 1974, and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Banister Continental Ltd. at March 31, 1974 and 1973 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period, after restatement of the 1973 financial statements to give effect to the change to Canadian dollar reporting as explained in Note 1.

Arthur Young, Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada
May 10, 1974

Five Year Summary

For the years ended March 31
(Stated in Canadian Dollars)*

	1974	1973	1972	1971	1970
Revenues	**$40,623,000**	$66,341,000	$48,227,000	$25,558,000	$28,166,000
Expenses:					
Operating	**24,606,000**	41,808,000	30,187,000	15,192,000	17,591,000
Depreciation	**6,644,000**	5,099,000	4,386,000	3,758,000	3,659,000
Interest and amortization of deferred charges	**350,000**	517,000	1,332,000	2,309,000	3,022,000
Selling, administrative and general	**3,090,000**	3,546,000	3,215,000	1,988,000	1,902,000
Total expenses	**34,690,000**	50,970,000	39,120,000	23,247,000	26,174,000
Income before income taxes	**5,933,000**	15,371,000	9,107,000	2,311,000	1,992,000
Income taxes	**3,091,000**	7,692,000	4,657,000	1,225,000	913,000
Net income	**$ 2,842,000**	$ 7,679,000	$ 4,450,000	$ 1,086,000	$ 1,079,000
Earnings per share					
Primary	**$ .71**	$ 1.91	$ 1.50	$ .42	$ .45
Fully diluted	**$ .69**	$ 1.84	$ 1.13	$ .39	$ .39
Average number of shares outstanding	**4,016,000**	3,957,000	2,855,000	2,411,000	2,290,000
Shareholders' equity	**$45,776,000**	$43,080,000	$34,381,000	$18,274,000	$16,130,000
Preferred dividends	**—**	—	$ 35,000	$ 60,000	$ 60,000

*See Note 1 with regard to the reincorporation in Canada and the restatement in Canadian Dollars of amounts previously reported in United States dollars. Earnings per share for the five years are computed as shown in Note 2. Earnings per share so computed are in accordance with generally accepted accounting principles applicable in the United States. Earnings per share computed in this manner are substantially the same as those which would have resulted had the computation been made in accordance with the principles applicable in Canada, except that in 1972 primary earnings per share under the Canadian mehod were $1.38 compared to $1.50 under the United States method, the difference being attributable to the treatment of conversions of convertible debentures into common stock in the determination of the weighted average number of common shares outstanding during the year.

Left to right: A. J. Cressey, M. G. Wolpert, O. J. Johanson

Board of Directors	R. K. Banister R. Bernstein S. S. Beauregard A. J. Cressey N. Fraser	A. T. Seedhouse A. M. Shoults S. J. Silberman J. H. Smith
Officers	A. J. Cressey O. J. Johanson H. W. Laslop K. H. Lambert	President Senior Vice President Vice President & Treasurer Vice President & Secretary
Executive Offices	Suite 300, Univac Building 55 City Centre Drive Mississauga, Ontario L5B 1M3	
Subsidiaries and Divisions		
Banister Pipelines Edmonton, Alberta and **Banister Pipelines Alaska, Inc.** Anchorage, Alaska	O. J. Johanson R. D. Meeres G. R. Caron A. D. Munro H. W. Laslop H. N. Bowker	President Vice President Administration Vice President Construction Vice President Equipment Vice President Finance Secretary
Continental Computer Associates (N.Y.), Inc. Wyncote, Pennsylvania	M. G. Wolpert S. L. Carr C. W. Weiss J. R. Barr	President Senior Vice President Vice President & Secretary Vice President Marketing
Registrars and Transfer Agents	First National City Bank 111 Wall Street New York, N.Y. 10022	The Canada Trust Company 10150 100 Street Edmonton, Alberta
	The Canada Trust Company 110 Yonge Street Toronto, Ontario M5C 1T4	The Canada Trust Company 800 Dorchester Blvd. West Montreal 101, Quebec
Common stock listed on	American Stock Exchange Montreal Stock Exchange Toronto Stock Exchange	
Auditors	Arthur Young, Clarkson, Gordon & Co.	

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